

# Skagit Environmental Endowment Commission

## Investment Policy Statement

June 18, 2021

The Skagit Environmental Endowment Commission (the Commission) was established under an agreement between the Province of BC and the City of Seattle as a condition within the Ross Lake/Seven Mile Reservoir Treaty between the United States and Canada signed in 1984. The treaty and agreement are in effect until 2064.

The Commission's mission is to ensure the preservation and protection of the natural and cultural resources and recreational opportunities of the Upper Skagit Watershed at the highest North American management standards through advocacy, promoting international cooperation and strategic partnerships and investments.

The Commission administers an Endowment Fund (the Endowment) to support its purposes in the Upper Skagit Watershed. This Investment Policy Statement applies to the assets of the Endowment

The portfolio shall be managed in accordance with any applicable legal requirement, notwithstanding anything contained in this policy.

### 1.0 Purpose and Objectives

- 1.1 The investment policy statement (IPS) provides a framework to be used by the Commission when making decisions regarding the investment of the Endowment. Investment will be made within levels of risk acceptable to the Commission and in a manner consistent with the Commission's mission. The IPS assigns responsibilities for the achievement of its investment objectives.
- 1.2 This policy does not apply to financial assets held to meet day-to-day operating requirements.
- 1.3 The Commission is a long-term investor. Its time horizon stretches to the earliest termination date of the High Ross Treaty, January 1, 2065.
- 1.4 The portfolio will be managed to meet the following objectives:
  - 1.4.1 Advance the purposes of the Endowment;
  - 1.4.2 Protect the real value of the Endowment over the long term to ensure the financial needs of the Commission are achieved over the long term;
  - 1.4.3 Provide stable and predictable income to support the Commission's activities;
  - 1.4.4 Maintain sufficient liquidity to meet its commitments; and
  - 1.4.5 Provide a reasonable rate of return with due regard for the Endowment's risk tolerance.
- 1.5 This IPS supersedes any existing investment policy statement and will be reviewed at least annually to ensure it continues to reflect the Endowment's requirements and objectives.
- 1.6 Where pooled funds are used, the investment guidelines of those specific pools will take precedence over this document. On this basis, it is the responsibility of the investment manager to ensure that the pooled fund guidelines are acceptable to the Commission before entering into such an investment.

### 2.0 Delegation of Responsibilities

- 2.1 The Commission is responsible for approving the IPS, and for retaining and terminating external independent investment managers and other service providers. The Commission

will retain only investment managers that have a proven financial track records and proven capability of implementing the IPS.

- 2.2 The Commission will appoint a Finance and Audit Committee (the Committee) that will, among other duties, oversee the investment of the Endowment.
- 2.3 The Committee is responsible for overseeing the investment of the Endowment in accordance with policies and procedures approved by the Commission and will report to the Commission quarterly. The Committee reviews the Endowment's assets and the status of its investments quarterly. It makes recommendations to the Commission on all aspects of the investment policy and management including:
  - 2.3.1 Amendments to the Investment Policy Statement;
  - 2.3.2 Selection of the investment manager;
  - 2.3.3 Investment performance objectives and guidelines for the investment manager; and
  - 2.3.4 Performance of the investment manager against objectives and guidelines.
- 2.4 The investment manager is responsible for the day-to-day investment of the Endowment. In performing its duties, the investment manager shall exercise the care, diligence and skill of a prudent person in dealing with the property of another person and adhere to the CFA Institute's Code of Ethics and Standards of Professional Conduct.

### **3.0 Investment Beliefs**

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| 3.1 Governance              | We should only invest in strategies we understand.  |
| 3.2 Time horizon            | The Commission has a long investment time horizon, which can be used to advantage. (Treaty continues until at least January 1, 2065.)   |
| 3.3 Asset allocation        | Strategic asset allocation is the primary determinant of portfolio risk and return over the long run.   |
| 3.4 Volatility              | Investment returns will not be constant over time.  |
| 3.5 Active management       | Financial markets are not perfect. Active management has the potential to add value and to preserve and grow our capital.   |
| 3.6 Financial risk          | Investment involves risk. The Commission should be compensated for taking risks.  |
| 3.7 Systemic risk           | The financial success of the portfolio in the long term depends on a healthy society, a sustainable environment and fair and efficient financial markets.   |
| 3.8 ESG factors             | Environmental, social and corporate governance (ESG) factors can have a material impact on the companies in which we invest and in financial markets. Considering ESG factors can improve investment outcomes from a risk/return perspective. |
| 3.9 Costs                   | Investment costs matter and need to be effectively managed.   |
| 3.10 Mission and reputation | How the Commission investment affects its mission and its reputation.   |

### **4.0 Risk Management**

- 4.1 The Commission has an average tolerance of risks associated with a balanced portfolio of fixed income securities and equities.

- 4.2 The level of risk to which the Endowment is exposed will be controlled by diversifying the Fund's holdings among asset classes, industry sectors and geographic regions.
- 4.3 Capital markets returns vary from one period to the next, sometimes dramatically. As a long-term investor, we accept this volatility in order to earn the necessary returns to meet our objectives and goals.
- 4.4 Investments should be structured and managed to generate the targeted investment return (see paragraph 6.1) while assuming the minimum necessary risk.
- 4.5 Volatility of the Endowment's rate of return should not be greater than the volatility of the benchmark portfolio's rate of return.
- 4.6 The Commission recognizes that risk management includes addressing systemic risks such as climate change, bio-diversity and inequality.
- 4.7 To ensure volatility does not negatively affect spending levels in any single year, sufficient liquidity will be maintained within the portfolio in cash and equivalents as well as in public markets investments to maintain granting and operating activities for at least a rolling one-year period.
- 4.8 Commission funds will be invested to ensure sufficient funds for the annual distribution plus optional distributions of up to \$1 million (U.S.) annually through the regular grant process. At least 180 day's notice will be given in cases of optional distributions.
- 4.9 The Commission will address currency risk by maintaining investments in Canadian and US funds such that an exchange in currencies is not needed to meet normal grant commitments.

## **5.0 Permitted Investments & Related Matters**

- 5.1 The Endowment may be invested in any of the following asset categories:
  - 5.1.1 Common stocks, convertible debentures, unit trusts, exchange traded funds, or preferred securities;
  - 5.1.2 Bonds, debentures, notes, or other debt instruments of governments, government agencies, or corporations, with a quality standard of "BBB" or above at time of purchase, as measured by the Canadian Bond Rating Service or Dominion Bond Rating Service. "BBB" will comprise no more than 20% of bond holdings. US and International bonds are permitted providing they are of a standard consistent with a BBB or above rating in Canada;
  - 5.1.3 Guaranteed investment contracts or equivalent of insurance companies, trust companies, banks or other eligible issuers, or funds which invest primarily in such instruments;
  - 5.1.4 Cash or money market securities issued by the Government of Canada or an agency of the Government of Canada or by a province or municipality in Canada; and investment grade corporate paper; and
  - 5.1.5 Mutual, pooled or segregated funds which may invest in any or all of the above asset classes.
- 5.2 The Endowment will not invest in derivatives.
- 5.3 The securities of the Endowment may not be loaned except within pooled funds that permit securities lending. Should a manager of a pooled fund engage in securities lending, the investment manager will make the Committee aware of this.

- 5.4 No single holding will exceed 10% of the portfolio market value of each asset class except for securities issued or guaranteed directly or indirectly by the Government of Canada or the Government of the United States.
- 5.5 No single holding in the portfolio will represent more than 10% of the outstanding shares of any corporation without express approval of the Commission.
- 5.6 Investments not specifically permitted by this Policy shall be prohibited.

## **6.0 Responsible Investment and Stewardship**

- 6.1 The Commission will invest in a manner consistent with its mission and goals.
- 6.2 How the Endowment is invested is an important tool for achieving its mission.
- 6.3 ESG factors will be integrated into investment analysis and decision-making by the investment manager.
- 6.4 The Commission is committed to investing in a manner aligned with the Paris Agreement and the goal of maintaining global warming below 1.5°C.
- 6.5 The Commission will not invest in companies that produce landmines, clusterbombs and tobacco products, that derive significant revenue from the unsustainable harvest of renewable resources (e.g. deforestation), or that substantially reduce biodiversity or people's access to recreation in the natural environment;
- 6.6 Our influence as a shareholder will be used in collaboration with others to encourage companies in which we invest to behave in a manner that aligns with the mission and goals of the Endowment. The Commission may delegate responsibilities for engaging portfolio companies to an agent or advisor.
- 6.7 The Commission or its agents individually or in collaboration with others will promote public policies and financial market regulations that support the generation of adequate long-term investment returns and fair and transparent financial markets.
- 6.8 The Global Compact, the International Labour Organization (ILO) Fundamental Principles and Rights at Work, the Organization of Economic Co-operation and Development Guidelines for Multinational Enterprises, the United Nations Declaration on the Rights of Indigenous People and the United Nations Guiding Principles for Human Rights and Business are recognized by the Commission as standards of responsible business conduct.
- 6.9 The Commission will delegate its voting rights to the investment manager(s) and/or to an independent proxy voting service (collectively the "Voting Agents") under guidelines consistent with the policies set forth in this Section, but retains the right to direct how votes shall be cast. Annually the Commission will review the Voting Agents' policies and exceptions.

## **7.0 Asset Allocation**

- 7.1 Return objective: The long-term investment goal of the Endowment is to achieve a minimum annual rate of return of 4%, net of investment management fees, in excess of the Canadian Consumer Price Index when measuring the total Fund's return in Canadian dollars, and in excess of the U.S. Consumer Price Index when measuring the total Fund's return in U.S. dollars. This goal is consistent with the overall investment risk level that the Fund assumes in order to maintain the real value of future grants. This objective will be assessed over a period of five years.
- 7.2 Approved asset allocation: The investment manager is expected to invest within the asset mix ranges indicated below. [Asset allocation TBD]

- 7.3 The investment manager will immediately notify the Commission if any asset class under its management is outside of the minimum and maximum range set by this policy. The investment manager will explain the reason or reasons for the portfolio moving outside of the permitted ranges and will advise on actions to be taken to return the portfolio to its permitted ranges.
- 7.4 Re-balancing: At the end of each quarter, if an asset class has an allocation outside its permitted range, it shall be rebalanced to its benchmark target by adding or deducting assets from asset classes that deviate from their respective targets

**8.0 Investment Monitoring**

- 8.1 Each month, the investment manager shall send to the Canadian Secretary and the US Secretary a statement setting forth the transactions carried out during the month as well as a month-end Portfolio statement, including a list of all holdings.
- 8.2 Each quarter, the investment manager shall send the Committee a statement confirming compliance with the endowment’s Investment Policy Statement.
- 8.3 The investment manager will report quarterly in writing on performance against a single fund benchmark using the target asset allocation and on performance against individual asset class benchmarks.
- 8.4 The investment manager’s quarterly reports will include the following:
  - 8.4.1 Returns net of fees versus benchmarks of multiple periods (Quarterly, 1-year, 3-years, 5-years and 10-years and since inception;
  - 8.4.2 Actual allocations versus targets and ranges;
  - 8.4.3 Portfolio-level attribution analysis (selection and allocation effects);
  - 8.4.4 Asset classes’ contribution to total returns;
  - 8.4.5 Account inception dates; and
  - 8.4.6 A fee statement.
- 8.5 At the Committee’s request, the investment manager shall:
  - 8.5.1 Provide information regarding any new development affecting the firm and its services;
  - 8.5.2 Review the transactions carried out in the latest period, the statement of the securities held at the end of the period and explain how they fit into the strategy;
  - 8.5.3 Explain the latest performance;
  - 8.5.4 Provide a brief market outlook and economic forecast as well as its intended strategy in such circumstances; and
  - 8.5.5 Report to the Committee at least annually on how it integrates ESG factors into the selection of assets in the portfolio and the outcomes of that process, and how it exercises ownership rights, including the execution of proxy voting rights and the goals and outcomes of engagement with portfolio companies.
  - 8.5.6 Report to the Committee at least annually on any changes to the guidelines used to vote proxies of the Endowment’s assets.
- 8.6 The following benchmarks will be used for assessing relative portfolio return:

Asset class	Benchmark
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Cash & equivalents	FTSE Canada 91-Day T-Bill
Canadian Bonds	FTSE Canada Universe All Corporate Bond Index
US Bonds	Bloomberg Barclays US Aggregate Bond
International Bonds	FTSE Short & Mid-Term Bonds
Canadian Equities	S&P TSX
US Equities	S&P 500
Global Equities	MSCI EAFE
International Equities	MSCI World

8.7 Periodic investment manager review: The Committee will review the investment manager at least each five years as to the performance of each investment manager relative to other investment managers. The review will assess the investment manager’s organizational structure and investment style, including targets and outcomes on gender and racial diversity and equity within the firm. Reasons for considering the termination of the services of an investment manager include, but are not limited to:

- 8.7.1 Performance results that, over a five-year period, are below the stated performance benchmarks;
- 8.7.2 Changes in the Endowment such that the manager's services are no longer required;
- 8.7.3 Changes in personnel, firm structure or investment philosophy, style or approach that may adversely affect the portfolio’s potential return or risk; and
- 8.7.4 Failure to adhere to this policy without communication and consent from the Commission.

**9.0 Conflicts of Interest:**

- 9.1 This policy applies to Commissioners and staff of the Commission, members of the Finance and Audit Committee, the investment manager and any agent who provides services related to investment of the Endowment.
- 9.2 Persons to whom the policy applies upon becoming aware of a conflict of interest must disclose it to the Chair of the Finance and Audit Committee or a Co-chair of the Commission
- 9.3 A conflict of interest is considered to be any direct or indirect association or material interest or involvement that would result in any actual, potential or perceived conflict of interest regarding the selection of investments.
- 9.4 Persons to whom the policy applies shall not benefit personally from knowledge gained in the course of the Commission’s work that is not in the public domain.
- 9.5 Anyone who has a conflict of interest shall not participate in investment decisions related to the area of conflict.
- 9.6 A written record of any conflict shall be maintained in the records of the Commission.

**10.0 Annual Audit**

- 10.1 Assets to which this policy refers will audited by an independent auditor as part of the Commission’s annual audit.

**Approved by the Commission June 18, 2021**